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# **Institutional Development Work in the Bank**

## **A Review of 84 Bank Projects**

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Institutional development work in Bank projects can be improved through careful attention to staffing, organization, work assignments, and managerial commitment.

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To assess the quality of institutional development (ID) work in recent Bank projects, and the factors affecting that quality, Gray, Khadiagala, and Moore reviewed the design of 84 projects approved by the Board in 1988. They found the following.

The Bank's record on ID is mixed. ID treatment was judged good in 43 percent of the projects, adequate in 24 percent, and weak in 33 percent. ID treatment tended to be better in investment projects -- particularly in infrastructure, energy, and human resources -- than in adjustment loans. Among regions, Asia and Africa had a larger percentage of well-designed loans than EMENA and LAC.

Of the people working on ID issues, 44 percent were technical specialists, 27 percent were economists, 18 percent were lawyers, financial analysts, project officers, or country officers, and 11 percent were people with specialized ID training. Consultants played only a minor role except in agricultural projects.

Several staff characteristics appear to affect the quality of ID treatment in the design of Bank projects. First, technical and institutional specialists appear to do a better job than economists on average. This finding supports the view that institutional analysis is a speciality distinct from economics, and that specialized training -- whether in a technical specialty or in disciplines such as public administration or social sciences other than economics -- can improve one's ability to analyze institutions and design ID interven-

tions. Second, the data strongly suggest that more experienced people tend to do better ID work. While experience and educational background are highly correlated, each appears to make an independent contribution to the quality of ID treatment. Third, country experience adds considerably to the quality of ID work.

These findings lead the authors to make several recommendations. First, specialized public sector management divisions can be useful in improving the Bank's ID work in adjustment and technical assistance loans, but they are no substitute for expertise and sensitivity to ID concerns within the country departments themselves (ideally through the inclusion of at least one ID specialist on the staff of each such department). Second, the Bank should continue to emphasize sector-specific training and experience -- particularly line management experience -- in hiring staff for the sector divisions. Third, resident missions should play more of a role in project design and supervision than they do now. Fourth, greater emphasis on project supervision is needed. Few incentives now exist for good supervision, and responsibility for project outcomes appears to be weak.

Finally, the Bank's best institutional work is done when managers are most committed to ID goals. Managers can improve the quality of ID work by giving clear signals -- through hiring practices, work assignments, policy papers, speeches, and (most important) reviews of individual loans -- that ID is crucial to the Bank's mission of promoting development.

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**Institutional Development Work in the Bank:  
A Review of 84 Bank Projects**

**Introduction**

Institutional weakness is a critical constraint to economic development. The World Bank, and the development community more generally, have become increasingly aware of the need for institutional strengthening if projects are to be successful and development is to be sustained. This awareness comes in part from reviews of project results by the Bank's Operations Evaluation Department (OED) and others. A recurrent theme of these reviews is that project failure often results from inadequate concern for the weak institutional capacity of the host government. As noted in OED's most recent Annual Review of Performance Evaluation, "in a large number of unsatisfactory operations, the principal determinants of performance were institutional . . . . In some cases, institutions at the national and project levels were weak, and their capacity was overstretched by the Bank-supported operations. Often, difficulties stemmed from poor management . . . . Other difficulties arose when project designs turned out to be based on an inadequate understanding of the surrounding culture, rural social and institutional structures, and behavioral norms . . . . These findings call for more careful assessments of the institutional aspects of proposed operations."<sup>1</sup>

The goal of this paper is to review the design of recent Bank projects to assess the quality of their institutional development ("ID") components and the factors that may affect that quality. A major focus is Bank staffing and organization, and the following questions are addressed:

1. What is the quality of institutional analysis and ID components in the design of current Bank projects?
2. Who is now doing ID work in Bank projects?
3. What qualifications are needed for effective ID work?
4. What impact does the Bank's organizational structure have on ID work?
5. What suggestions can be made to broaden and strengthen the ID work in Bank projects?

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<sup>1</sup> OED, Annual Review of Performance Evaluation, 1988, draft, August 29, 1989, p. vi.

## Methodology

### Project sample

To help answer these questions, we selected a stratified sample of 74 Bank projects approved by the Board in 1988. The sample was stratified by region and sector to facilitate region- or sector-specific comparisons.<sup>2</sup> The year 1988 was chosen because it reflects, as closely as possible, current work and staffing patterns in the Bank. The projects, chosen at random, represent one-third of all the projects that went to the Board in that year. As seen in Table 1, the sample is composed primarily of investment loans, the heaviest concentration being in infrastructure and energy and agriculture. Despite the high visibility of adjustment loans, they still represent a relatively small percentage of total Bank loans and about the same percentage of total money lent (Table 2). Africa is the heaviest represented of the regions, particularly in structural adjustment loans ("SALs") and technical assistance loans ("TALs").

Some of the most intractable institutional problems arise in the core macroeconomic management functions of government, which are typically addressed in SALs and TALs. Because of the small representation of these types of loans in the original sample, we also studied the remaining 14 SALs and TALs approved in 1988 but not included in the original sample. Thus, our total sample included 88 projects. Of these, four fell out (three from the original sample and one from the additional SALs and TALs) during the course of the study because of the unavailability of the task manager for interview. Our final sample thus numbered 84, as shown in Table 1. Of these 84, 71 were from our original stratified sample, and 13 were additional SALs and TALs.

### ID analysis

The treatment of institutional issues in the design of these 84 projects was studied in depth. First, the main project document (President's or Staff Appraisal Report) was analyzed to determine the degree to which it addressed ID-related issues. Institutional development implies more than the mere strengthening of organizations that will facilitate project implementation and completion. By institutions, we mean specific organizations (such as a ministry of finance, a parastatal or public enterprise) as well as institutions in the broader and more fundamental sense, such as financial and commodity markets and the legal framework. For each project we looked at the treatment (including both coverage and quality of analysis) of both types of institutions. Among the institutional topics studied were the legal and para-legal system; the internal organization and distribution of functions in the affected organization(s); inter-institutional relationships; physical and financial capacity for project implementation; personnel policies and reward

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<sup>2</sup> In other words, the numbers in each cell of Table 1 equal one-third of the total number of projects in that region and sector category approved by the Board in 1988. It should be noted that the sample size was not large enough to permit region- and sector-specific conclusions.

Table 1

Regional and Sector Breakdown of Sample Projects

	number of projects chosen (number of projects in final sample)				
	<u>Asia</u>	<u>Africa</u>	<u>Europe and Middle East</u>	<u>Latin America</u>	<u>Total</u>
<u>Original Sample</u>					
Agriculture	5 (4)	7	3	3	13 (17)
Human Resources	3	4 (3)	1	2	10 ( 9)
Infrastructure and Energy	9(8)	7	3	4	23 (22)
Trade, Finance, and Industry	4	4	3	3	14
Structural Adjustment (SAL)	0	3	1	1	5
Technical Assistance (TAL)	0	3*	0	1	4
Total	21 (19)	28 (27)	11	14	74 (71)
<u>Additional Projects</u>					
SAL	0	4	1	1	6
TAL	1	6 (5)	0	1	8 (7)
Total	1	10 (9)	1	2	14 (13)
<u>TOTAL FINAL SAMPLE</u>	<u>20</u>	<u>36</u>	<u>12</u>	<u>16</u>	<u>84</u>

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\* The Mali TAL is combined with the Mali SAL in the sample because they were essentially one operation, done simultaneously by the same team with the same task manager.

Table 2

Total Size of Loans in the Sample

- in million U.S. dollars

	<u>Asia</u>	<u>Africa</u>	<u>Europe and Middle East</u>	<u>Latin America</u>	<u>Total</u>
<u>Original Sample (71)</u>					
Agriculture	498	229	203	414	1343
Human Resources	176	78	54	18	326
Infrastructure and Energy	814	212	376	311	1712
Trade, Finance, and Industry	355	712	478	1000	2545
SAL	-	220	150	100	470
TAL	-	43	0	27	70
Total	1842	1493	1261	1870	6466
<u>Additional Projects (13)</u>					
SAL	-	245	200	50	495
TAL	200	80	0	10	290
Total	200	325	200	60	785
TOTAL FINAL SAMPLE (84)	2042	1817	1461	1930	7250



systems; and competency and skill levels in the institutional environment.<sup>3</sup> We also looked at the extent to which the project document addressed the question of political commitment to the project (such commitment being essential to successful ID) and the quality and sensitivity of the ID components (such as training and technical assistance) included in the project itself (Box 1). We were also interested in any discussion of how the project implementing unit ("PIU") related--both in the short and the longer-run--to other entities in the sector. Finally, we looked carefully at whether the project design was sensitive to the absorptive capacity of the recipient organization; overoptimism and overambitious design can be as fatal to success as neglect. After reviewing the treatment of these various criteria in the project document, we tentatively categorized each project as either good, adequate, or weak in its ID coverage.<sup>4</sup>

These desk reviews were then followed by interviews with the task manager of each project. The main goals of the interviews were twofold: first, to discuss and reassess the treatment of ID issues (and finalize the categorization) and second, to gather data on staff input into ID work, including the job title, educational background, career experience, and organizational affiliation of each person who contributed to the ID work on the project. The interviews also provided an opportunity to discuss Bank structure, staffing, and incentives with the practitioners, to get their views on the factors that affect ID work in the Bank. The interview information was then combined with the desk analyses to create a comprehensive data base on the treatment of ID issues in projects and the staff responsible for such treatment.

#### Limitations of the methodology

This methodology has several important limitations that should be noted at the outset. First, the study looks only at the design of the projects, not at their outcomes. While a good design does not guarantee a good project, we

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<sup>3</sup> This list of criteria follows Tobelem, "Institutional Capacity Analysis System to Strengthening of Entities' Capacity to Implement Their Work Program", draft, 4/5/87.

<sup>4</sup> It should be stressed that the evaluations covered the treatment of only ID issues. A "weak" rating does not imply a bad project overall, but rather a weak treatment of ID issues. On the other hand, institutional issues often lie at the heart of project success or failure. OED notes, for example, that "in the great majority of [unsatisfactory projects], the principal determinants of performance were difficulties with institutional changes and reforms." In some cases, the projects "tended to be unduly complex, and ... would have required exceptional leadership to succeed." In others, "understanding seems to have been inadequate of the intricate institutional arrangements (including the structure of property rights) prevailing in the areas covered." It is clear that careful analysis of institutional needs, both in the narrow and the broad sense, is important to project success. OED, Annual Review of Evaluation Results, 1988, pp. 22-24.

**Box 1. Some Criteria for Judging ID Treatment**

**-legal and paralegal system:** Does the design effectively consider the project's need for changes in statutes or other "rules of the game"?

**-internal organization:** Is the project designed to ensure that lead implementing organizations have the appropriate structure to carry out their mandate(s)?

**-inter-institutional relationships:** Projects often affect more than one organization. Does the project adequately identify those organizations or parts of organizations to be affected by the loan?

**-physical and financial capacity:** Is there an adequate assessment of the physical and financial requirements for various stages of the project cycle?

**-personnel policies and reward systems:** Does the design consider the appropriateness of the match between recruitment and incentive policies and staff responsibilities?

**-competency and skill levels:** Does the design consider whether existing skill levels are adequate for implementation?

**-country commitment:** Has care been taken that adequate political and bureaucratic commitment will exist beyond the stage of project funding?

**-ID components in the project:** Given the identification of institutional needs, does the project design provide for specific and appropriate activities to ameliorate potential implementation bottlenecks?

suspect a poor design has little chance of success.<sup>5</sup> Recent projects were chosen because they reflect current conditions in the Bank. However, it would be very useful to revisit them again in 5-10 years to review how they were actually implemented and what impact they had.

Second, the review of ID design focuses only on the major Board document--the Staff Appraisal Report (SAR), or the President's Report if no SAR was available. While this may not reflect all the work done on a project, it is the document that the Board sees and upon which final approval is based; thus it should review all significant elements of project design. Furthermore, in each case the document review was followed up with an in-depth interview of the task manager.

Third, the data on staffing include only those people who participated on Bank missions, in most cases appraisal missions. Consultants or others who did background work are not included.

Finally, the work necessarily involved subjective judgments concerning the quality of the treatment of ID in the projects studied. Many of the conclusions are opinions, not proven facts. At least there were three somewhat independent judgments (one from each author) in each case rather than just one, and rarely was there any disagreement among the three.

## Findings

### What is the quality of institutional work in Bank projects?

Overall the record is mixed. Of the basic sample of 71 loans, 44% were judged to have a good treatment of ID issues, while 24% were judged adequate

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<sup>5</sup> Again quoting from OED (pg. 26), "an explicit assessment at the appraisal stage of the adequacy of institutional arrangements will establish a sounder basis for project implementation. Such an assessment ought to include both a judgment of the project's need for a specific form of organization and a judgment of the absorptive capacity of the relevant institutions." Later, in its discussion of long-term sustainability, OED states (pg. 35) "both the Bank's regional staff and evaluation officers have emphasized the importance for sustainability of decisions made at the preparation, design, and appraisal stages. In these projects the design issues concern not only the engineering and technical aspects of projects, but also the institutional and human capital aspects." OED strongly recommends "that the Bank establish the necessary framework for carrying out institutional analysis in all its operations. Immediate actions needs to be taken in this regard" (pg. 37).

### **Box 2. Philippines Housing Sector Project**

The principle objective of this project is to restructure the institutional environment of the housing sector and reorient housing construction toward the provision of volume low-cost housing in the public and private sector. The SAR reflects the tremendous amount of "institutional homework" that has gone into this project. It contains a thorough discussion of the institutions and inter-institutional dynamics in the housing sector, staff skills and incentives, and the government's policies and goals for the sector. It provides for a significant amount of technical assistance, training, equipment, and studies in all of the lead agencies in the sector, with an excellent discussion of how the components fit together. Although the ID challenges are many and implementation may encounter difficulties, the thorough institutional analysis done in project design (itself reflecting the extensive SAC or work that had gone on before) provides an excellent base upon which to build.

and 32% were judged weak.<sup>6</sup> Tables 3 and 4 show the ratings of loans by sector and region, respectively. The quality of ID treatment appears to be better in investment projects, particularly in human resources and infrastructure and energy, than in adjustment loans (whether SALS or sector adjustment loans--

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<sup>6</sup> These overall results are similar to those recorded in other studies of project-related ID work. In its 1988 evaluations of completed projects, OED judged 35 percent of the projects evaluated to have had substantial success in ID, 41 percent to have had partial success, and 24 percent to have accomplished very little in this area (OED, pg. 58). The degree of success appears to have depended at least in part on the project's understanding of local institutions and on the care and realism evident in the design of technical assistance components--two aspects of project design covered in this analysis. For another study of completed projects that arrives at similar results, see D. W. Brinkerhoff, "Institutional Analysis and Institutional Development: A Survey of World Bank Project Experience," (draft, October 1989). In analyzing the reasons behind successful institution-building in a sample of Bank projects, this study stresses similar themes to ours--the importance of country commitment, quality of management and technical staff, favorable bureaucratic incentives, and a stable environment.

Table 3  
Sector and Rating of Sample Projects

	- in percent			
	<u>Weak</u>	<u>Adequate</u>	<u>Good</u>	<u>Total</u>
Agriculture	35	29	35	100
Human Resources	23	23	56	100
Infrastructure/Energy	23	23	55	100
Trade/Finance/Industry	29	29	43	100
(SECAL	67	17	17	100)
SAL    - original 5	100	0	0	100
(- total 11	73	9	18	100)
TAL    - original 4	25	25	50	100
(- total 11	27	27	45	100)
 <b>TOTAL</b> - original 71	 32	 24	 44	 100
(- total 84	33	24	43	100)

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- Numbers may not add correctly due to rounding.

Table 4

Region and Rating of Sample 71 Projects

- in percent

	Weak	Adequate	Good	Total
Asia	21	26	53	100
Africa	33	15	52	100
EMENA	36	36	27	100
LAC	43	29	29	100

SECALs). Over half of the infrastructure, energy, and human resource projects were categorized as good and less than one-quarter as weak; in contrast, all of the 5 SALs in the original sample (three-quarters of the expanded sample of 11) and two-thirds of the SECALs were categorized as weak in their ID treatment. Ideally, SALs and SECALs should aim to strengthen both economic policies and economic management in the borrowing countries. Even if SALs and SECALs deal primarily with policy change, it is still important to analyze the institutional setting in which such policy change is to be implemented to judge the feasibility and sustainability of the program. For example, revenue increases should not be mandated without some understanding of the capacity of the government to collect them. Similarly, cuts in the civil service wage bill and other public expenditures should not be a condition of a SAL without some understanding of the civil service and the expenditure planning and budgeting systems. Policy changes that ignore the institutional underpinnings are unlikely to last and may even have perverse outcomes. When analyzing ID treatment in SALs, we did not look exclusively for specific ID components (which are often not included in SALs) but rather for an understanding of the institutional setting and a sensitivity to the importance of country commitment and long-term sustainability.<sup>7</sup>

Half of the technical assistance loans were judged to be good, while one-fourth were rated weak and one-fourth adequate. A recent OED study of 20 earlier free-standing technical assistance projects concludes that overall "the record of institutional development is rather weak . . . If a program is to be realistic, project identification, design, and implementation require a greater level of commitment and a greater depth of political and economic understanding of the recipient country than were evident in the Bank's relationship with borrowers in most of the TA projects studied." As discussed later, some of the good TA projects in this study appear to incorporate some of the lessons learned from earlier failures.

On a regional basis, Asia and Africa had a larger percentage of good loans, while Europe and Middle East (EMENA) and Latin America (LAC) had the highest concentration of weak loans.<sup>8</sup> However, Asia had no SALs or SECALs, while six of Africa's 27 projects were SALs or SECALs; thus, Africa's achievement is particularly noteworthy.

The coverage and quality of analysis varied among the ID subtopics used for evaluation. Most of the projects (83 percent) had a good analysis of the

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<sup>7</sup> For further discussion of the weaknesses of ID work in SALs, see B. Nunberg, "Review of Public Sector Management Issues in Structural Adjustment Lending," Country Economics Department, May 22, 1989.

<sup>8</sup> It should be noted, however, that an earlier study using the same methodology done on all LAC projects in FY88 and the first half of FY89 came up with a somewhat better record for LAC, indicating that our sample of one-third of the projects was not a fully accurate reflection of the whole. See Richard J. Moore, "Review of Treatment of Institutional Development (ID) Issues in LAC Projects Presented to the Board Between July 1987 and December 1988," LATHR, May 30, 1989.

internal organization and distribution of functions in the affected organization. Coverage of physical and financial capacity for project implementation and of country commitment was also strong in most projects (76 and 73 percent, respectively). Of all the criteria, personnel policies and reward systems had the weakest coverage. Only 32 percent of the projects were considered good in this category, while almost half were considered weak. The ratings were more evenly distributed in the other categories--the legal and para-legal system, inter-institutional relationships, competency and skill levels, and the quality of the ID components in the lending package. Slightly more than one-half of the projects were judged good in these categories, with the rest considered weak or adequate.

#### Who is now doing ID work in Bank projects?

The sample of 71 projects had 150 people working on ID issues.<sup>9</sup> Of these, 44 percent were technical specialists, 27 percent were economists, 3 percent were lawyers, 15 percent were financial analysts, project officers, or country officers, and 11 percent were people with more specialized ID job descriptions (such as "public sector management specialist" or "technical assistance officer").

The characteristics of ID practitioners differed according to the type of project. As expected, ID work in projects in infrastructure and energy and human resource was done primarily by technical specialists, while ID work in SALs was dominated by economists (with a significant input from formal institutional specialists in the Africa region). ID work in agriculture and trade, finance, and industry was done by both economists and technical staff. The only type of project with a major involvement of formal institutional specialists was the technical assistance project.

Contrary to popular conception, consultants had a minor role in the direct preparation of the ID components of these Bank projects. Of the 150 ID people identified, 77 percent were Bank staff, while 23 percent were consultants. The only sector that relied heavily on consultants for ID work was agriculture.

#### What factors affect the quality of the design of ID components in a project?

Many factors have an influence on the quality of ID design. We touch very briefly on two rather obvious and overarching ones--type of project and country environment--before turning to the primary topics of this paper--Bank staffing and organization.

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<sup>9</sup> When analyzing the contribution of various individuals to the ID work of a project, we wanted to distinguish those with a major contribution from those with only a minor contribution. We did this by giving the former (including the task manager) a weighting of one while giving the latter a weighting of only .3. All personnel-related statistics in this report reflect that weighting.



## 1. TYPE OF PROJECT.

It is no accident that projects in certain sectors tend to have better ID treatment than projects in other sectors. Energy and infrastructure projects tend to be more "self-contained", and the institutional issues tend to be more standard from country to country.<sup>10</sup> Although ID issues in human resource projects are usually more complex and less standard than those in energy and infrastructure, one might expect people working in the social sectors to look carefully at management and human resource issues. SALs tend to involve the most complex institutional issues. They address programs and policy processes that tend to cut across many organizations, and they deal with the central institutions of government, for which there are fewer "recipes". Furthermore, they often take place in a highly politically charged atmosphere. Technical assistance loans that accompany SALs share the same difficult environment, but they should be expected to look with depth and quality at institutional issues, given that these issues are their core concern.

## 2. COUNTRY ENVIRONMENT.

The country environment also affects the treatment of ID issues in Bank projects. First, it influences the agenda of Bank priorities. In many African countries, institutions are so weak that ID is easily accepted as high priority. In some Latin American countries, in contrast, macroeconomic instability tends to dominate other problems on the Bank's agenda. Second, it influences the degree of access of Bank staff to the inner workings of institutions. In each region we noticed a slight negative correlation between size of borrower and quality of ID work. This is probably due both to the Bank's higher leverage in smaller countries and to the smaller size and thus lower degree of complexity of the institutions in those countries. Both factors make institutions somewhat more accessible and comprehensible for Bank staff.

The extent of the Bank's own previous experience in the country is also likely to affect the quality of its ID work, because of the "learning curve" involved in getting to know the intricacies of local institutions. In several cases in our sample, for example, task managers were able to point to successful institutional interventions in previous Bank projects in the particular country and sector, and their positive impact on current ID analysis and design. In some cases, institutions had been built up slowly over ten or more successive Bank projects. In contrast, one of the weakest SALs from an institutional perspective was in a country in which the Bank had only begun to get involved again after an absence of many years.

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<sup>10</sup> Others have also noted how the degree of "specificity" of a task, or the existence of a "blueprint approach", eases the task of institutional development. See A. Israel, Institutional Development. Incentives to Performance, Johns Hopkins University Press, 1987, and D. W. Steedman, "The Institutional Dimensions of Investment Lending: Education and Power Projects in FY87-88."

Table 5

The Importance of Educational and Job Specialization

Percentage of ID workers  
with particular specializations:

	<u>Economists</u>	<u>Technical Specialists</u>	<u>Institutional Specialists</u>	<u>Lawyers</u>	<u>Other</u>	<u>Total</u>
<u>Original Sample of 71</u>						
Weak	47	24	9	5	16	100
Adequate	24	58	3	0	15	100
Good	17	49	16	3	15	100
<u>Total</u>	27	44	11	3	15	100
<u>All 22 SALs/TALs</u>						
Weak	45	4	29	8	14	100
Adequate	26	28	16	8	22	100
Good	28	3	54	5	10	100
<u>All Other Projects</u>						
Weak	48	31	0	3	18	100
Adequate	22	60	3	0	15	100
Good	19	55	10	2	14	100

### 3. STAFF CHARACTERISTICS.

A major goal of this study is to assess the impact on the quality of ID work of several staff characteristics--including educational background and job title, prior ID-related experience in the sector, and prior experience in the country. Unfortunately, it is difficult to untangle the unique contribution of each of these characteristics because they (especially the first two) tend to be highly correlated with each other. In particular, the Bank's technical experts tend to have more experience in institution building than staff in the other job categories (whether economist, financial analyst, institutional specialist, country officer, etc.).

#### Educational background.

In general, the data suggest that educational background and job title are correlated with the quality of ID treatment in project design. (Because job title is almost synonymous with educational background--especially in the major job categories such as economist, technical specialist, institutional specialist, and lawyer--these two characteristics are grouped together for purposes of analysis.) Table 5 shows the percentage of ID workers with particular specializations for the original sample of 71 projects, the expanded sample of 22 SALs and TALs, and the 62 sector projects. In all cases, the ID work in the weaker projects involved a higher percentage of economists than in the adequate or good projects. In contrast, the better ID work in investment projects was dominated by technical specialists, while the better SALs and TALs had large input from institutional specialists (with backgrounds in public administration or the social sciences other than economics). These patterns remain even if the sample is subdivided still further by individual sector.

These data tend to support the view that institutional analysis is a specialty distinct from economics, and that specialized training--whether in technical specialties or in disciplines such as public administration or the social sciences other than economics--can improve one's ability to analyze institutions and design ID interventions. In evaluating the impact of educational background, however, one must also consider the impact of experience because of the high correlation of the two variables.

#### ID-related sector experience.

The data strongly suggest that more experienced people tend to do better ID work (Table 6). Of the original sample of 71 projects, the average ID worker in a project with a weak ID rating had 7 years of ID-related experience,<sup>11</sup> while analogous experience levels in the adequate and good projects were 13 and 18 years, respectively. If SALs and TALs are separated from sector projects (because of the very different characteristics of each), the same pattern holds. In both subcategories, the average years of ID experience per ID worker for the good projects was double that for the weak

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<sup>11</sup> We included as ID-related experience any previous work that directly involved institutional analysis or line-management responsibility.

Table 6

The Importance of Relevant ID Experience

Average years of ID experience per ID worker

(Average number of ID workers per project):

	Original Sample of 71	All 22 SALs/TALs	All other projects
Weak	7.1 (1.9)	4.1 (2.2)	8.1 (1.8)
Adequate	13.4 (2.1)	6.5 (3.3)	14.2 (2.2)
Good	18.2 (2.3)	9.6 (3.2)	19.0 (2.2)
<u>Total</u>	13.5 (2.1)	6.3 (2.7)	14.7 (2.1)

projects. Furthermore, if the projects are subdivided still further into individual sector subcategories, the same pattern holds. In all cases, the ID workers in good projects had significantly more ID-related experience than those in weak projects.

As noted above, drawing a meaningful conclusion from this analysis is complicated by the high correlation referred to earlier between specialization and experience. The Bank has relatively few inexperienced technical specialists and relatively few economists (particularly macroeconomists) with long years of ID-related experience. We know from Tables 5 and 6 that good sector projects involve a relatively high percentage of experienced technical specialists, while weaker sector projects involve fewer of them. For SALs and TALs, the institutional specialists tend to have greater ID-related experience, and more involvement by them is correlated with better ID treatment. Whether its the specialized background or the years of ID-related experience--or both--that makes the difference is difficult to tell.

There is some evidence, however, that experience is a major contributor in and of itself, at least in the sectors. If we take a subsample of only technical specialists involved in ID work on infrastructure and energy projects<sup>12</sup>--thus eliminating the impact of sector or educational background, there still appears to be a correlation between quality of ID work and amount of ID-related experience. The technical specialists working on the weak projects had an average of 11 years of relevant experience, while those working on the adequate and good projects had relevant experience of 16 and 22 years respectively. A similar pattern holds for economists working in agricultural projects, where the average experience per ID worker in weak, adequate, and good projects was 1.4, 7.2, and 11.8 years, respectively.

There is also some evidence that educational background/job title is a contributor in and of itself, particularly in SALs and TALs. If we lessen the potential contribution of experience by eliminating all SALs and TALs with highly experienced ID workers,<sup>13</sup> the good SALs and TALs still have a significantly higher representation of institutional specialists (70 percent as opposed to only 27 percent for the weak projects).

It is interesting to note that the characteristics of ID workers seem to matter more than the total number of ID workers per project. This number (shown in parentheses in Table 6), though positively correlated with rating, varies little between any of the categories.

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<sup>12</sup> Infrastructure and energy was the only sector with a large enough sample of any single type of specialist to be able to make a meaningful comparison between weak, adequate, and good projects.

<sup>13</sup> Here defined as all projects whose ID workers have average ID-related experience of 10 years or more.

Table 7

The Importance of Country Experience

Average years of country experience per ID worker:

	Original Sample of 71	All 22 SALs/TALs	All other projects
Weak	1.2	.6	1.4
Adequate	2.5	.6	2.6
Good	3.0	.9	3.1

### Country experience.

Experience working with the borrowing country is also correlated with the quality of ID treatment in project design (Table 7). The average years of country experience per ID worker for good projects (whether sector projects or SALs/TALs) was more than double that for weak projects.

Both country experience and ID-related experience were much lower for SALs and TALs than for sector projects. We believe this is because staff working on these types of loans tend both to be younger and to rotate jobs more rapidly than technical sector staff. It has been suggested that the small amount of average country experience for SALs and TALs might be influenced to some extent by the fact that 1988 projects were prepared during and just after the reorganization, when many people changed jobs. However, there is little reason to presume that the reorganization affected SAL/TAL staff more than sector staff. Moreover, the interviews did not reveal extensive disruption in the SALs and TALs.

### Sensitivity to institutional concerns.

We found in our interviews that particular task managers had an intangible quality of personality, partly but not wholly related to experience and educational background, that seemed to make them particularly sensitive to the institutional concerns in their projects. These people seemed to be particularly committed to the substance of their work, and they realized intuitively that institutional development is necessary for project sustainability and long-term economic development.

### Team approach.

Institutional concerns--particularly in SALs and TALs--seem to be addressed most thoroughly when at least two and preferably more people with different backgrounds and points of view work on the project together. The best SALs in the sample were accompanied by TALs, with the two projects being done in tandem and sharing many of the same staff.

## 4. MANAGEMENT SUPPORT

The quality of ID treatment in project design is strongly influenced by the degree of support given to ID work by management, particularly the next-in-line managers, typically division chiefs. A manager's overt concern with and emphasis on long-term institution-building is reflected not only in the day-to-day work of his or her staff on particular projects, but more fundamentally in the initial decisions on staffing and on Bank strategy in the borrowing countries. Not all managers show equal commitment to ID issues; variation in managerial commitment was clearly noticeable in the interviews. It was reflected in the design of job title and content in each division (particularly each Country Operations division--COD), the choice of staff to fill each job, the tasks (projects, economic and sector work--ESW) pursued, and the treatment of ID issues in each task.

### Box 3. Kenya Third Population Project

Kenya has one of the highest population growth rates in the world. This project, approved in mid-1988 for SDR 9 million (US \$12.2 million equivalent), aims to promote the demand for family planning services in Kenya and to increase the supply of such services. It attempts to mobilize and coordinate public and NGO resources to expand both public information and education about family planning and the supply of contraceptives.

The project is a good example of institutional analysis in project design. It focuses on ensuring political commitment and on strengthening lead institutions and their linkages with other actors (including NGOs) in the sector. There is an acute sensitivity to the cross-cutting institutional setting in which the various agencies interact, and to the need for proper placement of lead institutions to command legitimacy and authority. The good ID analysis stems in part from long involvement of both the Bank and the project team itself in the country and sector. The Bank has played a critical role in the long-term development of the National Council for Planning and Development (NCPD). From earlier assistance with a strong project focus, the Bank has assisted NCPD in increasing its role in the policy environment.

The staff working on the project have excellent technical backgrounds and long experience in both the sector and the country. The project took several years to prepare, due in part to careful work to build consensus and political support. The concern for long-term sustainability is evident throughout. It may be paying off--Kenya's efforts at population control appear to be showing initial signs of real success, far beyond expectations even one year ago.

## 5. ORGANIZATIONAL STRUCTURE

### Sector projects

Organizational structure does not appear to be much of an issue for ID work in the sectors. The country focus provided through the Bank's 1987 reorganization gives the staff in each Sector Operations division (SOD) the means to focus on country-specific institutional issues over an extended period. SODs tend to employ technical experts with extensive ID-related experience, and the data presented earlier indicate that these experts are likely to give good treatment to institutional issues in their projects. Furthermore, the same staffing patterns exist in the technical departments, although the specific country focus (and thus the long-term country



experience) may be somewhat harder to maintain because of the many competing demands made on TD staff from various country departments.

### SALs/TALs.

Organizational issues are somewhat more problematic in the case of SALs and TALs, because of the wide range and enormous complexity of the institutional issues that can arise. At present Africa and LAC have units in their respective technical departments devoted to public sector management, while Asia and EMENA have no such specialized units (although one in the Technical Department (TD) division in EMENA is given explicit responsibility for PSM activities). Because most of the projects in our sample of 22 SALs/TALs were in Africa, it is somewhat difficult to generalize our findings to the Bank at large. In Africa, the SALs and TALs that were either managed by or used staff from the Africa PSM division tended to be stronger in their treatment of ID issues than those that did not. The best results came in the few cases where an ID specialist was located in a COD and either managed the loan (in the case of TA loans) or worked closely with the country economist who managed the loan (in the case of SALs), and where the experts from the African PSM division were active participants. In these cases strong ID expertise combined with strong managerial commitment resulted in excellent ID treatment in project design.

### Use of resident missions

In several projects, resident mission staff made valuable contributions to the high quality of institutional design. Their day-to-day presence in the borrowing country led to more thorough country knowledge, experience, and continuity than would have been possible through mission work alone.

### Consultants vs. in-house staff.

The ratio of consultants to in-house staff did not appear to have an impact on the quality of ID treatment in our sample of projects. All three categories of projects averaged about the same percentage (approximately 23 percent) of consultants in total ID staff.

## Recommendations for Action

### Organizational Structure

#### 1. SPECIALIZED UNITS

Our findings support the view that specialized public sector management divisions can be useful in improving the Bank's work on institutional development, particularly in regions (such as Africa) with many adjustment and technical assistance loans. They insure a certain degree of sensitivity and attention to institutional issues, and they bring knowledge and experience to bear in analyzing ID problems and suggesting ID interventions. The ideal role for such a division is as a locus of specialized expertise in a range of specific institutional issues, particularly issues of macroeconomic management--such as civil service reform, tax administration, public

#### **Box 4.      SALs, TALs, and Institutional Development**

Nowhere is the need for careful consideration of institutional issues more evident than in the policy-based approach of structural adjustment lending. Because policy-based lending cuts across institutions and generally requires several institutions to cooperate in implementation, great care must be taken in assuring attention to institutional capacity.

The Guinea Economic Management Support Project (EMSAP) and the Central African Republic Economic Management Project (EMP) show careful concern for the institutional support needs of their respective companion SALs. Among other things, both TALs aim to strengthen core ministries (in such areas as planning, investment programming, fiscal and debt management) and to promote efforts at civil service reform. In both cases, project design suggests a strong "learning curve" from prior Bank operations (including prior failures) in the countries. They reflect a concern that policy reform outpace neither the institutional capacity or the government's commitment to implement it. The technical assistance, training, studies, and other support in each project are closely integrated and are carefully designed to create indigenous capacity beyond the life of the project. For example, rather than depend on long-term technical advisors to ministers, short-term technical advisors are to be integrated into a unit with carefully assigned counterparts.

The careful treatment of ID in project design in these two cases reflects strong managerial commitment and staffing. Both tasks are managed (both during design and supervision) in the COD (by a country officer and a technical assistance specialist, respectively) and draw heavily on the African and/or PPR public sector management divisions. Both were designed contemporaneously with the preparation of SALs, with key staff participating in both loans.

expenditure planning and budgeting, debt management--of relevance to SALs and TALs.

## **2. COUNTRY DEPARTMENTS**

However, a special unit in the Technical Department is no substitute for expertise and sensitivity within the country departments, where control over the ultimate design of lending programs lies. Ensuring attention to institutional issues--through proper staffing and incentives--within the country departments is critical both to proper design and to effective follow-through in institution building. The rationale for the Bank's 1987 reorganization was to give country focus to strategy formulation. For the Bank to have a long-term impact on institutional development, ID goals need to be fully integrated into its country strategies.

Ensuring sensitivity to institutional issues is more difficult in the country operating divisions (CODs) than in the sector operating divisions (SODs). It can be accomplished in the SODs by maintaining a staff of experienced and broad-based technical experts. Analogous experts--combining broad-based sector knowledge and experience--do not typically exist in the CODs, which are staffed primarily by relatively young economists and country officers. As noted above, institutional work appears to be the weakest in the Bank's adjustment lending (particularly SALs not accompanied by TALs). In part this stems from the lack of experience and interest of many macro-economists in institutional issues. Yet the institutional challenges in central institutions of government typically covered by adjustment loans are no less important, indeed they are probably more important, than the analogous challenges in investment projects. An increase in the quality of the Bank's institutional work in its adjustment and technical assistance lending will contribute to long-term sustainability of policy reform.

The best organizational means to achieve this in our opinion is to increase the number of institutional specialists (with jobs titled accordingly) in the country departments (probably in the CODs or possibly in a separate unit within the CDs). Their role would be to design and manage ID-related ESW and TA loans and to advise other staff in the CD on institutional issues. In doing their work, they would draw heavily on expert PSM staff in the technical departments and PRE (Policy, Research, and External Affairs), as well as external consultants (including specialists from institutes of management and policy analysis in developing countries). Because of the staff-intensity of TA loans, they might need day-to-day assistance from an operations assistant. This model has been followed quite successfully in a few divisions in Africa and LAC.

Some CODs use country officers to do institutional analysis and manage TA loans. This is an alternative model that has the advantage of keeping an ID focus in the COD, but has the disadvantage that ID work can take a secondary role to the other day-to-day demands of a country officer. It also tends to discourage specialization in ID, because the country officer stream draws from such a wide range of backgrounds. Still, this approach is preferable to no focus on ID at all, and it may be the most feasible one in the short run given the culture of the Bank.

### 3. RESIDENT MISSIONS.

Institutional work could be enhanced if the resident missions played a larger role in project design and supervision than they now do. Indeed, some people believe that significant decentralization of the Bank's operations away from Washington into the field is the only way to heighten the Bank's long-term impact on institutional development. To begin strengthening the role of resident missions would in most cases require an addition of at least one higher-level staff person to the resident mission. This person would have an integral role in both project design and supervision (particularly for technical assistance projects and other projects with strong institution-building components).

#### 4. CENTRAL UNITS.

Several central units in the Bank are heavily involved in the area of institutional development. The Public Sector Management and Private Sector Development division (CECPS) in the Development Economics Department, PRE, carries out a mixture of specialized operational support, policy work, research, and training. It has been and should continue to be a center of innovation, starting new initiatives and "spinning" them off when appropriate. It should continue to serve a coordinating function, bringing together the many groups and individuals in the Bank working on ID issues to share experiences and learn from each other. Its internal training role is likely to increase in the future (see discussion on training below).

The existence of CECPS need not deter other divisions in PPR from focusing on institutional issues in their area of specialty. For example, ID is a critical issue in macroeconomic management, in budget and tax administration, in customs administration, and in the financial sector, not to mention in the management of sectoral policies and institutions.

The Coordination and Development Administration division in the Economic Development Institute (EDI) is also dedicated to institution building. It is involved in training policy makers in borrowing countries in principles and techniques of public administration and long-term institutional development. Its current mandate appears to be quite clear and appropriate.

Another central unit with a potentially strong role in ID work in the Bank is the legal department. Lawyers from this department were very useful in helping analyze and reform the legal framework in several of the projects in the sample. Continued involvement of this type can be encouraged by placing more emphasis on substantive operational support in the work programs of the lawyers in the department. It is encouraging to note that the legal department already appears to be moving in this direction.

#### Personnel policies

##### 1. HIRING

#### Sector projects

Our results suggest that the Bank should continue to place major emphasis on sector-specific training and experience--particularly line management experience--in hiring staff for the sector divisions. This expertise is clearly a great strength of the Bank. One potentially serious problem is the imminent retirement of a large portion of the Bank's technical experts. Some 70 percent of the Bank's technical experts will reportedly be eligible for retirement within the next 5 years. Hopefully the Bank will take care to replace these experienced technical experts with equally qualified staff.

### SALs, SECALs, and TA projects

If institutional development is to be a major concern of these types of projects, the results of this study suggest that the Bank could benefit by hiring people with specialized educational backgrounds and experience for the CODs and PSM divisions. An appropriate educational background for this type of work would entail a Ph.D. in a social science discipline other than economics--whether public administration, political science, sociology, or anthropology--with some focus on development and some exposure to issues of public administration. Training to the Ph.D. level is useful to insure broad abilities in conceptual thinking.

Institutional staff in the Country Departments (CDs) would have a broader role than those in the Technical Departments (TDs), because the former would need to manage a wide array of ID-oriented tasks. Therefore, PSM staff in the TDs would be expected to be more experienced and specialized than staff in the CDs. The relevant experience would depend on the needs of the region, whether debt management, tax administration, public expenditure management, civil service reform, public enterprise reform, etc. Specialized experience is no less important in these areas than in the sectors--although it may be more difficult to find. If there is concern for long-term fungibility of the specialized staff, they could be hired on fixed-term appointments.

These recommendations follow from our view that there is an identifiable body of knowledge and experience that constitutes an "ID specialty". Understanding the nature of organizations and bureaucracies has been a field of academic endeavor and practical application for many years. Approaches and instruments have been developed, and lessons have been learned. For example, specialists in this field have studied the implications of line and staff relations, of different forms of hierarchy, of centralization vs. decentralization, and of various authority/responsibility mixes. They have developed various management systems and have studied the advantages and disadvantages of each. They have been concerned with policy makers' access to important information, and have developed systems to permit the most widespread and efficient flow of such information. In particular, an ID specialist brings to bear a heightened sensitivity to the organizational milieu and incentive systems in the public sector.

## 2. TRAINING

A sensitivity to ID concerns and approaches--at least enough to know when to hire experts--can be learned through short-term training. More and better formal opportunities for training in institutional issues are needed for non-specialist Bank staff. These should include not only more short courses (such as those organized by CECPS), but also professional conferences and longer courses given by outside organizations, whether governments in industrial or developing countries, specialized associations that deal with public administration, or business or public policy schools in the U.S. or abroad. External secondments to public or private-sector organizations should also be encouraged, particularly for staff (such as Young Professionals) who may not have had significant prior work experience before joining the Bank.

### Work Assignments

In addition to our observations on organizational structure and personnel policies, our study of 84 Bank projects led us to believe that the ID impact of Bank projects could be enhanced by some reconsideration of work assignments. First, to insure that economic analysis is accompanied by relevant institutional and political analysis and to facilitate on-the-job training in these areas, it is useful to adopt more of a team approach--to team people with different backgrounds and team less experienced with more experienced people. In many cases this will mean designing SALs and TALs jointly; indeed, a strong case can be made that every SAL should be accompanied by a TAL to insure that institutional requirements for sustainability are not overlooked.<sup>14</sup> The incentives that currently exist in the Bank to subdivide work into a myriad of discrete tasks that people manage and carry out separately can be counterproductive.

Second, good ID work takes an in-depth knowledge of a country and careful negotiation with many people, all of which takes time. Projects with thorny institutional issues should not be rushed to the Board.

Third, even if the treatment of ID in project design is excellent, a project can fail in its ID objectives because of poor implementation. We believe that the task manager in the design stage of the project cycle should continue to manage a project into the supervision stage as long as possible. Accountability for implementation should be encouraged by taking supervision activities--as well as the results of project completion reports--into account when evaluating staff. Unfortunately, we were repeatedly told that no incentives exist in the Bank for good supervision--that the incentives stopped once a project was taken to the Board. Responsibility for project outcomes appears to be very weak.

Finally, policies on staff rotation can enhance institutional understanding if they encourage more country and regional specialization. Because of the key role that country knowledge and experience play in the understanding of institutions, the Bank should encourage longer times-in-assignment (perhaps five years rather than three), particularly in the case of its larger and more complex borrowers. Furthermore, the Bank should encourage regional specialization across assignments, because of the many institutional similarities between countries within a region or subregion.

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<sup>14</sup> The reverse is not true. Stand-alone TALs are often appropriate in the absence of any economic adjustment program. Furthermore, the preparation of TALs should not be rushed simply to fit in the time-frame of a hurried SAL. Both loans should be based on a thorough analysis of institutional capacities and needs.

### Conclusion

The best institutional work in the Bank is done where managers are the most committed to ID goals. Managers can enhance the quality of the Bank's ID work by giving clear signals--through policy papers, speeches, and (most importantly) reviews of individual loans--that ID is important, indeed paramount, to the Bank's mission of promoting development. OED is already leading the way with its constant stress on the importance of institutional work to project sustainability.

This study has focused on the treatment of institutional issues in project design. While project design is critical, the weakest link in the Bank's ID work may be in implementation. We know a lot now about the effects of the Bank's organization, staffing, and incentive structure on its institutional work; we will know even more if these 84 projects can be revisited in a follow-up study in five to ten years.

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